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Television production: configuring for sustainability in the digital era

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Abstract:

Over recent years leading independent television production companies in the UK and elsewhere in Europe have become prime targets for corporate activity and many have been subject to takeover, often by US media groups. Why is it that nurturing the development of television production companies which achieve scale but, at the same time, remain independent appears to be so challenging? This article considers which factors are crucial to the success of television production businesses and argues that, aside from the ability to make compelling content, two key variables which strongly affect commercial success and sustainability in this sector are, first, effective management and exploitation of intellect property rights (IPRs) and, second, scale and configuration of activities. Focusing primarily on the latter, it analyses how changing technological and market conditions are affecting the advantages conferred by size and by adopting differing cross-ownership configurations thus, in turn, fuelling current processes of industrial re-structuring.

Keywords:

Television production; independent producers; scale; ownership structure; vertical integration; corporate configuration; intellect property rights (IPRs).

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> 'While creativity is thriving in the UK, many businesses struggle to make the step from executing successful projects to becoming fully-fledged, sustainable creative businesses... **Despite its reputation for world-class content, the UK has very few creative businesses of an international scale (and not enough work has been done to understand why). Often, companies that achieve early success are acquired by a large international player, rather than building sustainable businesses in the UK.** While we want the UK to continue to be an attractive country for inward investment, it is vital that those companies that want to grow organically have the means to do so.'
>
> (Create UK, 2014: 6).

Over recent years, transformations have taken place in the structure of ownership of the television production sector in the UK and elsewhere across Europe characterized by consolidation, takeovers and the growing controlling presence of non-domestic parent groups. This state of affairs has attracted critical comment in the press and been a cause for concern amongst policy-makers who, for both economic and societal reasons, are keen to see media and cultural production businesses flourish but remain independent and indigenous. Why have patterns of ownership changed and what does this imply for the ability of independent production companies to survive and flourish in a more globalized and competitive environment for television?

In most countries, the state of health of indigenous television production businesses is regarded as a matter of importance partly for economic reasons. In the UK for example, television production forms part of a creative sector that, as noted by the Chancellor of the Exchequer, 'adds billions to UK GDP each year and supports jobs across the country' as well as strengthening the UK's 'infrastructure of innovation' (Osborne, cited in Olsberg and Nordicity, 2015: v). Ownership structures also matter for socio-cultural reasons. The importance, not least in conveying soft power (Nye, 2004), of any country's stake in globalised cultural production industries is one concern. More fundamentally, it is widely supposed that, despite globalisation, identity is still somehow anchored in national space and that, given the role of culture (of which television is a part) in reproducing this, the organisation and ownership of cultural production industries matters (Schlesinger, 1997). So custodianship of businesses that involve creation of cultural outputs and exploitation of intellectual property rights (IPRs) 'raise questions that go beyond that of markets and of economic value' (Harvey, 2015).

A recent survey noted 'seismic' shifts in ownership in the UK television production industry with only five companies accounting for 45 percent of the sector's revenues in 2014 (Parker, 2015: 2). Production has become an attractive target for US media groups such as NBC Universal and Warner Brothers who, since 2008, have acquired a number of companies (Ofcom 2015: 13; Paterson, 2017). It is not only international groups but also domestic UK broadcasters who have been buying up production assets: ITV has acquired a number of large and small UK and US independent television production companies since 2010 (ibid). And the trend towards consolidation and takeovers has not been confined to the UK (Agnew, 2017). Warner Brothers for example acquired BlazHoffski in The Netherlands and Belgium in 2011 and in 2014 it acquired Netherlands-based Eyeworks which has TV production interests in some 15 countries (Tartaglioni, 2014). To what extent do recent restructurings in ownership reflect changes in the sorts of corporate configurations (i.e. whether owned by a multinational parent company or whether vertically integrated or not) that conduce to success in the television production sector in the digital era?

How scale may influence the performance of media companies has been the focus in a number of earlier studies (Picard, 2006; Wildman, 2006). Most literature about the relationship between size and success in audiovisual industries focuses especially on feature film production and the predominance of the Hollywood major studios which is partly attributable to scale and partly to vertically integrated structures, both of which contribute to strategies of risk reduction (de Vany, 2003). As far as TV production is concerned, a useful but limited body of earlier research concerns itself with questions surrounding strategy, size and performance. Bennett (2015) analyses the status of UK production companies and argues that true independence, in the sense of having freedom from commercial and government pressures, is an ideal that most 'indies' struggle to achieve. North and Oliver focus on manager's perceptions of the impact of processes of consolidation in the sector and note that, in addition to advantages of size and scale, individual gain is often seen as a key driver of this process (North and Oliver, 2010). For Esser, the main factors driving US acquisitions of European production companies have been the success of European-led format businesses, greater competition for content and low interest rates (2016: 3586).

A number of industry reports and studies, often commissioned by UK trade association PACT and conducted by consultancies such Oliver & Ohlbaum (2014; 2015) and Mediatique (2015), have examined the financial health and performance of independent production companies in the UK. While providing an excellent secondary source of data on such variables as industry revenues and profits, consultancy studies are necessarily constrained in depth and focus and do not contextualize empirical findings in terms of wider landscapes of knowledge and theory.

Thus, this exploratory paper extends a currently limited body of work that, in the context of creative industries and more specifically the television production sector examines the relationship between, on the one hand, expansion, scale and differing sorts of corporate configurations (whether owned by a multinational parent company; vertically integrated or not) and, on the other, economic performance and capacity to engage in business strategies that sustain growth. The research questions it seeks to address are: What are the key factors that conduce to economic success and sustainability in the TV production sector? What is the nature of the association between corporate configuration and performance? How and why is this relationship changing?

In the context of media industries, the difficulties of defining success and sustainability and of pinpointing suitable measures of performance are manifold and well recognized (Wirth and Block, 1995). Although standard measures of financial performance such as changes in sales revenues, gross profit margins or return on capital are often relied upon in industry analyses, the design of a framework suited to more fully evaluating performance in the particular context of the television production sector requires attention to be paid to non-economic indicators too including for example audiences, awards and critical reception for outputs.

Drawing on secondary sources of industry data and from secondary source material from interviews with executives in the television industry, this article provides a preliminary analysis of critical factors determining business success in the television production sector and it assesses how and why scale and corporate configuration are of growing importance in the digital era. This research is part of a wider project on ‘TV Production in Transition: Independence, Scale and Sustainability’ funded by the UK Economic & Social Research Council (ES/N015258/1).

Success factors in TV production

Early work on key success factors or, as Bullen and Rockart put it, the small number of specific ‘key areas where “things must go right” in order for the business to flourish’ (1981:7) was carried out in the context of designing management information systems. But numerous theorists working in the fields of economics, business management and strategy have also addressed questions related to how the performance of firms in any given sector of industry is determined by circumstances, factors and/or strategically significant attributes (Peters and Waterman, 1982). One criticism of such studies is that, because all businesses are unique, generalisation is difficult. And the context in which firms operate is often dynamic and complex, making it difficult to distinguish and isolate specific success factors reliably. Establishing causality, as opposed to mere association, between specific attributes and success is another problem. Even so, a great deal of work has concerned itself with identifying factors seen as crucial in determining performance and therefore having implications for the attainment of competitive advantage on the part of individual firms. Most famously Michael Porter (1979) has produced a typology of skills and resources which contribute to competitive advantage.

In this paper, since the role of company configuration in determining performance provides a central focus, a useful theoretical starting point is earlier work in economics which, building on Coase, examines how marketplaces characterized by uncertainty in transactions between the differing vertical stages may well incentivise the development of vertically integrated organizational forms (Williamson and Winter, 1993). Such uncertainty is a defining characteristic of TV production which implies that there will be natural incentives towards vertical expansion in this sector.

Also of value is the industrial organization (IO) approach and, within this, the SCP (structure-conduct-performance) paradigm which has frequently informed earlier studies in economics of media (Wildman, 2006). However, the fact that SCP analysis confines itself to industry structure and firm behaviour leaves obvious limitations in relation to additional and alternative factors which may have an important explanatory value. In the context of media, not only is performance a 'multi-dimensional' concept (Wirth and Bloch, 1985) but likewise the factors that may determine performance are varied and complex and go beyond industry structure. So, while IO provides a useful overarching framework, it is also beneficial to integrate insights from complementary perspectives including, in particular, the resource based view of strategic management which highlights specific attributes that confer advantage (Barney, 1991) and also strategic dynamic capability (Teece, 2007; Helfat and Peteraf, 2011).

Following this general line of approach, this paper argues that, based on preliminary analysis of the recent history and circumstances of the UK television production sector, three variables appear to be especially crucial in determining performance in this sector in the digital era. These are: capabilities in production; ability to exploit content assets; and corporate configuration. This is not to say that other factors play *no* role. Obviously environmental issues such as the state of the economy and levels of market competition will have a bearing on all players in the sector and whether or not individual firms are well managed also makes a difference. My argument is that, in this industry, three variables are especially significant. The first of these - how good the firm is in the core business of cost-effectively producing content that audiences find appealing – depends in turn on the talents or skills and resources of the production company and is what might be viewed as a ‘fundamental’ competency (Eisenhardt and Martin, 2000: 1107). Two additional variables that are vital are, first, effective management and exploitation of IPRs and, second, scale and configuration of activities.

Evidence to support the view that effective exploitation of IPRs plays a vital role in the business performance of TV production companies is to be found in numerous earlier reports and studies which point to how a policy intervention in the UK which strengthened the position of producers *vis-à-vis* rights ownership in 2003 has since led to a period of marked and sustained improvement in the financial performance of the sector (Doyle and Paterson, 2008; Mediatique, 2015; Oliver & Ohlbaum 2015). Earlier empirical research has underlined how judicious use of windowing strategies to maximise returns from content assets has been crucial to the success of UK-based leading international production companies (Doyle, 2016).

Recent waves of consolidation and of takeovers involving UK and European television production companies strongly support the view that, in addition to exploitation of IPRs, corporate configuration emerges as another potentially highly decisive success factor in this sector. Of course, these two factors are not unrelated: some ownership configurations are more conducive to effective management and exploitation of IPRs than others. However the role that scale and corporate configuration might play in strengthening the business performance of television production companies extends well beyond IPR management and is more complex, as is discussed below.

Why scale, vertical shape and international ownership matters in the digital era

Preliminary analysis that draws on recent secondary source statistical company and industry data and material from interviews with leading television production executives suggests that a number of themes are especially pertinent to understanding the relationship between corporate configuration and performance in the production sector. Some of these overlap and their relative significance may vary from one instance to the next but, broadly speaking, the following appear to be key determinants of the interplay between configuration and performance in this sector:

Advantages of scale

Economic theory suggests that the presence of economies of scale is usually the main incentive which drives expansion and consolidation of ownership in any industry. When it comes to making and supplying television content, a company will not, simply on account of being large, be able to 'produce at a lower cost per hour than [smaller] companies with little or no production infrastructure' (Ofcom, 2006: 70). Even so, companies with busier production slates and longer production runs are often able to make better and fuller use of resources (Hoskins et al, 2004; Ofcom, 2006: 71). So, fuelled by the 'public good' characteristics of content which mean that, once initial or 'first run' creation costs have been covered, facilitating consumption of that content by additional audiences typically involves low marginal costs (Doyle 2013), economies of scale are a feature of this business.

Some earlier research has questioned whether it should be assumed that scale always confers advantages (Bourreau, Gensollen and Perani, 2002). Focusing specifically on independent producers in the UK, North and Oliver have argued that, whereas both larger sized 'super-indies' who have 'scale and financial resources' and small niche players who are 'streamlined enough' to eke out a living from a handful of commissions are well placed for survival, it is medium-sized television production companies that are likely to struggle for a living in an increasingly competitive landscape (North and Oliver, 2010: 35).

However, recent empirical data supports the idea that scale is advantageous, not only for large but also for medium sized firms (Oliver & Ohlbaum, 2015: 59). Production companies operating with a more sizeable scale of activities (i.e. those with annual revenues in excess of £5m) tend to fare better on profit margins than smaller ones and this reflects a number of possible sources of advantage, from economies of scale, to improved opportunities to build reputation and accrue market power, to being able to invest in specialist labour. So *prima facia* the economic rationale in favour of strategies of enlargement and consolidation in the television sector appears to be well founded. And industry research has identified pursuit of economies of scale as one of the 'main drivers of recent acquisitions' of production companies by US media groups (Mediatique: 2015: 43)

Market access

However, merger and acquisition activity in the television production sector is frequently predicated not on scale advantages *per se* but rather on strategic motives related to securing access to markets. Faced with increasing competition and encroachment on revenues by digital rivals, many broadcasters have sought to diversify vertically upstream by building a presence in content creation (Ofcom, 2015:13; Esser, 2016). JB Perrette, president of Discovery argues that, in a world where many distribution channels and points of access to content exist, ownership of production has become increasingly important: 'Good content will separate the winners from the losers' (Perette cited in Sweney, 2014). The US major networks have become 'laser focused' on the need to acquire ownership of content creation and IPRs in order to sustain 'maximum control over multiplatform distribution' (Littleton, 2016: 42). This same belief has underpinned UK broadcaster ITV's strategy of vertical expansion through numerous acquisitions of independent production companies (Davies, 2016).

From the production company's point of view, a compelling incentive for merging with a broadcaster and/ or a larger television company with an international distribution network is the promise of assured downstream access to avenues of distribution and, in turn, audiences (Noam, 2009). When leading UK independent production company Shed was taken over by Warner Bros in 2011, its chief executive Nick Southgate highlighted the fact that Warner is so well networked internationally as a producer and as a distributor as key advantages (Busfield and Sweney, 2010). Discussing Sony's acquisition of leading independent producer Left Bank, SPTVI Chief Creative Officer Wayne Garvie declared that this acted 'like a turbocharge' for Left Bank which 'suddenly became genuine players in domestic market at a level they weren't before as well as internationally' (Garvie cited in Sweney, 2014).

Potential for improved access to *international* markets and funding is now a significant incentive for vertical and horizontal mergers. Recent data shows that the proportion of income which the UK independent television production sector earned from international sales and commissions grew from 19% in 2006 to 30% in 2014 (Mediatique, 2015: 16). Albeit that the production sector has tended to draw on international markets and co-production deals to finance production of content for a long time (Chalaby, 2012), the current situation of heightened competition between broadcasters and digital service providers such as Netflix has fuelled demand for 'big statement' and often expensive programmes and, in turn, increased reliance on international sources of finance (Ofcom, 2015; Doyle, 2016). For Wayne Garvie, the most significant advantage for a production company of being 'allied and part of a larger company [is that] you can play immediately on an international field' (Garvie cited in Sweney, 2014).

Bargaining power

To build their businesses, producers need to negotiate favourable terms on retention and secondary exploitation of IPRs. But their ability to do so depends to a large extent on how market power is distributed along the vertical supply chain that stretches between the producer and the consumer (Doyle, 2013: 111). Historically, broadcasters have tended to enjoy positions of dominance in the supply chain and, in turn, substantial leverage in deals with producers competing for commissions. In the UK, regulatory oversight of terms of trade in deals between the main terrestrial broadcasters and independent producers has helped address this situation since 2003 (Paterson and Doyle, 2008). However, setting aside such interventions, the bargaining power of individual players in any industry is apt to reflect their strategic configuration (Porter, 1979).

Consistent with earlier research which suggests that bigger firms – firms that have scale and/or are a subsidiary of a larger and more powerful parent company and that have financial resources - are better placed to become important suppliers in the television industry and to acquire negotiating leverage in their transactions with broadcasters (North and Oliver, 2010: 34), it appears that bargaining power is a significant factor motivating recent changes in ownership structures. Speaking about the advantages of Endemol-Shine's recently enlarged scale and structure, senior executives Cris Abrego and Charlie Corwin (cited in Littleton, 2016: 42) acknowledge that 'it all comes down to leverage and flexibility in deal-making'. For Corwin, having the resources to deficit-finance and create pilots and series and being the owner of a substantial library of IPRs with production subsidiaries all over the world are all competitive advantages and 'we'll be able to leverage those capabilities into better rights retention' (ibid).

Ability to manage risk

Bigger firms are better placed not only to acquire negotiating leverage but they also enjoy advantages in relation to being able to spread their risks over a number of programme titles and differing genres and titles. Television production is a hit-based risky business and so, as with film, companies that have the scale to mitigate risk through operating product portfolio strategies will enjoy a competitive edge (Achtenhagen, 2012). To participate successfully in strategies of cost-spreading and cross-subsidization, television companies need to be of a certain size and to have 'a portfolio of programmes of different vintages in their inventory' (Litman, 1998: 135).

Eligibility for policy support

Another issue which, arguably, is pertinent to understanding the relationship between corporate configuration and performance in the TV production sector is public policy. Policy interventions that are intended, for socio-cultural reasons, to protect indigenous production or 'independent' productions often confer favourable treatment on companies which meet specified criteria related to their ownership structures. In the UK for example, a production company that is not cross-owned by a broadcaster[1] will qualify as an 'indie' and in turn benefit from compulsory access quotas for independent productions on PSB channels and also from regulatory oversight of terms of trade intended to ensure that producers retain at least some ownership of 'the intellectual property of the content, which is critical in terms of making money from a show' (Graves, cited in Sweney, 2014)

Policy incentives designed to incentivise certain forms of corporate configuration can make a difference. However, at a time when technological and market opportunities are changing, the benefits of being a so-called ‘qualifying indie’ may well be outweighed by other potential advantages that being part of, say, a large internationally networked parent company can bring. Recent re-structurings of ownership in the UK would suggest that this is often so (Mediatique, 2015: 34), which in 2015 caused UK regulator Ofcom to review the efficacy of prevailing policy supports (Ofcom, 2015), albeit that this subsequently did not result in any changes in policy.

Conclusions

In all sectors of the economy, a number of critical success factors exist and firms that lack these will be disadvantaged relative to rivals unless they adapt or acquire the competences or attributes in question. This article argues that, in television production, changing technological and market dynamics have accentuated the importance of configuration – scale and corporate structure - as a critical success factor. This is evidenced by re-structurings in ownership across European and UK television production sectors characterized by greater consolidation, higher levels of vertical cross-ownership and more takeovers by non-domestic parent companies, often major US media groups. Transformations in ownership are taking place primarily because the nature and extent of the advantages that greater scale or adopting differing cross-ownership configurations may confer have changed.

In this article a number of themes that centrally determine the interplay between configuration and performance in the television production sector are identified and examined, namely: advantages of scale, ability to manage risk, market access, bargaining power and policy support. However, at a time of concern about how incumbent TV production companies can adjust successfully to advancing technology and how public policies ought to change to ensure that independent production continues to flourish in the global arena, more systematic and in-depth empirical research is needed to bring about a fuller understanding of this complex and changing relationship.

It is not simply the ability of independent production companies to survive in an increasingly globalized and competitive environment for television which is at stake here. Increased investment interest from multi-nationals in indigenous UK and European-based players has potential implications for content and for audiences. Since television, as a key aspect of culture, forms part of ‘an active shaping repertoire of meanings and images, embodied in values, myths and symbols that serve to unite’ (Smith, 1998: 187) it follows that the organisation and ownership of television production is of wider cultural and political significance. Some earlier work suggests that consolidation in the production sector is unlikely to adversely affect creative processes (North and Oliver, 2010: 32), but others are less sanguine (Paterson, 2017: 22). Esser rightly draws attention to the diminished position of (often smaller independent) indigenous production companies who, to the extent that they wish to make content that is predominantly oriented towards the concerns of domestic audiences, may well ‘struggle to attract funding adequate to compete with the high-production-value fare developed and produced for the international market’ (Esser, 2016: 3605).

So, with a view to promoting socio-cultural objectives as much as preserving fair and open competition, policy-makers too need for a fuller understanding of the relationship between ownership and performance in the television production sector and how this is evolving. Market access is clearly a major driver of recent mergers and acquisitions but, because all stages in the vertical supply chain for television are interdependent, strategies of vertical and conglomerate expansion can give rise to concerns about anti-competitive behaviour including, for example, ‘refusals to supply essential inputs to rival downstream firms, margin squeezes, raising rivals’ costs, exclusivity deals or monopsony in content acquisition’ (OECD, 2013: 7).

By scoping and conceptualizing those factors which appear essential to the association between corporate configuration and performance, the analysis presented here constitutes a first step in preparing the ground for much-needed further dissection through empirical research. Further investigation will be conducted through a forthcoming ESRC-funded project which, through empirically-based interrogation of configuration, strategy, creative decision-making and performance, aims to build fuller understanding of how changes in technology have altered the corporate configurations which conduce to economic success in the production industry and of the challenges surrounding development of a production sector that is both economically successful and independent.

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[1] A qualifying independent producer cannot be more than 25% owned by any company which also owns a UK broadcaster.